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SUBJECT: ON THE VERGE OF POWER OUTAGES, GOK MAKES A STRONG
PUSH FOR CONSERVATION, INSTALLS NEW GENERATORS

REF: KUWAIT 585 AND PREVIOUS

11. (SBU) Summary: High summer temperatures are pushing Kuwait's peak power consumption to the limits of the country's generating capacity, which suffers from years of under-investment in power plants. On the demand side, the Government has launched an unprecedented multimedia conservation campaign targeted at both government agencies and residential consumers. On the supply side, recent efforts by the Ministry of Electricity and Water to secure emergency supplemental power supplies will begin to take effect in mid-to-late July as new gas turbines come online. With peak consumption reaching within 100 MW of the threshold for load-shedding, it seems unlikely that Kuwait will be able to avoid significant power outages for much longer as temperatures continue to rise. High plant utilization and delayed maintenance also make it increasingly likely that a significant equipment failure could put one of the country's major power plants out of commission until repairs can be made. In its effort to avert widespread outages, the Government has fast-tracked contracts and allocated USD 5 billion in 2007 alone to increase generating capacity. The beneficiaries have been gas turbine manufacturers and contracting companies. GE Power alone has made USD 900 million in Kuwait in the first six months of 2007, compared to USD 200 million in total revenue for all of 2005. The boon for energy companies is likely to continue as the Government directs its attention to acquiring emergency power for summer 2008 and re-tendering of the 3000 MW Al-Zour North power plant. End Summary.

Struggling to Keep Consumption from Exceeding Capacity

12. (SBU) As high summer temperatures drive peak power consumption towards Kuwait's capacity limit of 9,000 MW, the GOK is scrambling to install more generators while aggressively promoting conservation through tighter controls on consumption in government agencies as well as through an active campaign in the schools and in the local media. Years of under-investment in new generating capacity mean that this summer's electricity shortage is likely to be more severe than the unprecedented brownouts of last summer which led to vociferous public criticism of the Government. Most government ministries have now instituted conservation programs that include turning off lights and air-conditioning outside of working hours. Mosques have been requested to turn off air-conditioning outside of prayer times. Officials from the Ministry of Electricity and Water (MEW) have made frequent appearances on radio and television over the last few weeks to raise public awareness of the problem and inform

residents of actions they could take to help avert large-scale power outages. In recent days, the Ministry has gone so far as to send mobile phone text messages to residents suggesting that they turn up their thermostats to 77 degrees Fahrenheit and turn off water boilers and air-conditioning in unoccupied rooms. A call center with 270 staff has been established to advise consumers in several languages to use power sparingly.

13. (SBU) The GOK has advised citizens that once consumption reaches 9,000 MW, a load-shedding program will be activated to shut off power first to industries and businesses and then to residential users. It is generally expected that expatriate residential neighborhoods will have their power cut before predominately Kuwaiti neighborhoods are affected. Electricity and Water Minister Mohammed Al-Olaim has publicly stated that these programmed disruptions will not last for more than one hour in any given neighborhood. During the peak consumption hours between 1 p.m. and 4 p.m., local television stations provide continual updates of the level of consumption and its proximity to the 9,000 MW limit. With temperatures already exceeding 110 degrees Fahrenheit, peak consumption has so far reached an upper limit of 8,900 MW, but temperatures are likely to rise further into July and August. With schools closing for the summer and many families preparing to embark on traditional long summer holidays outside Kuwait, the severity of power shortages in the coming months will largely depend on whether most Kuwaiti families change their standard practice of leaving air-conditioning and personal electronics turned on even when their homes are unoccupied for extended periods. Electricity in Kuwait is heavily subsidized and Kuwaitis are effectively able to ignore their power bills with impunity. The Government has recently announced, however, that expatriate

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residential consumers with outstanding electricity bills over 200 KD (\$750) will have their power cut off.

Supplemental Capacity Still Weeks Away

14. (SBU) The Government's scramble to acquire supplemental generating capacity, which began in late 2006 (reftels) will not begin to have any significant effect until late July and early August. A total of 800 MW is expected to be added by August 30. Of this total, 100 MW is expected by June 30, 150 MW by July 4, 60 MW by July 10, 250 MW by August 1, and 240 MW by August 30. Engineer Suhaila Marafie, Director of Studies and Research at MEW, told Econoff on June 18 that after August 30, the threat of power cuts should recede until next summer. She admits, however, that this assumes no major plant malfunction. Marafie concedes that the difficult environmental conditions in Kuwait in the summer and the abnormally high utilization of Kuwait's existing power plants combined with the inability to take major equipment offline for routine maintenance make it likely that a significant equipment failure will occur. There have already been reports over the last two weeks of power outages in limited areas, but the Ministry insists that these incidents were not due to load-shedding, but rather to isolated mechanical failures that were quickly repaired. A major equipment failure could result in broader and more sustained outages since Kuwait currently has almost no spare capacity.

Crisis a Boon to Power Companies, especially GE

15. (SBU) The clear winners in Kuwait's scramble for electricity have been gas turbine manufacturers GE, Siemens, and Alstom, as well as the contractors that procure and install their turbines. MEW announced that it has budgeted a total of USD 5 billion for installation of additional generating capacity this year alone. The Government has made

the strategic decision that these and all future power plants in Kuwait will be gas turbines to rationalize the use of Kuwait's petroleum resources and reduce the emission of pollutants. The Ministry has already begun signing contracts for summer 2008 supplemental power and preparations are underway to re-tender the 3000 MW Al-Zour North power plant project which was shelved in 2006 due to a lack of qualified bidders. GE's Country Manager told Econoff on June 18 that in the first six months of 2006, GE Power has generated USD 900 million in revenue in Kuwait (in addition to USD 500 million for GE Aircraft Engines, USD 200 million for GE Oil and Gas, USD 70 million for GE Water, and USD 20 million for GE Medical Equipment). In comparison, total revenue from all of GE's businesses in Kuwait amounted to about USD 100 million in 2005 and USD 200 million in 2006. All of the GE turbines being used for emergency power have been provided through local trading companies and contractors.

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